

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON ENERGY AND RESOURCES



*OPENING STATEMENT OF
CHAIRMAN DARRELL ISSA*

“Petroleum Refineries: Will Record Profits Spur Investment in New Capacity?”

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The U.S. has the largest, most sophisticated, and most productive petroleum refining infrastructure in the world. The 148 refineries in 33 states are capable of processing about 17 million barrels of crude oil each day into a broad array of products, such as heating oil, diesel fuel, and gasoline.

Refined petroleum products are essential to the U.S. economy, the nation’s security, and Americans’ standard of living. Petroleum refineries produce products for both industry and the average customer that do not have easy short term substitutes.

For example, refined petroleum products account for over 98% of the fuel that drives the nation’s transportation sector—and that means more than just gasoline. Businesses and communities depend on diesel-fueled trucking and transport that deliver food to supermarkets, equipment to manufacturers and children to schools, and are immediately affected by supply disruptions.

Petroleum markets in the U.S. respond to supply and demand changes through price adjustments that, in turn, create incentives to increase or decrease supply to correct any imbalance. But decisions to expand existing capacity or construct new refineries will take years to be completed—which leaves the U.S. skating on razor thin margins for the foreseeable future.

Petroleum refiners have diligently minimized their working capital over the past 30 years. More than 100 smaller, inefficient refineries have been closed. Inventories of refined product have steadily shrunk to emphasize just-in-time delivery. The country hasn’t seen a new refinery constructed since 1976.

Nevertheless, U.S. consumers have enjoyed reliable supplies of fuels at relatively stable prices during that time. Existing refineries have updated their technology to improve environmental performance while significantly increasing production. Ultimately, efforts to keep petroleum supply costs low have spelled lower prices for consumers.

However, optimizing business operations by shrinking inventories and wringing out slack refining capacity provides little cushion against an unexpected disruption of refined product supplies.

Hurricanes Katrina and Rita dramatically illustrated this shortcoming. Damage to the Gulf Coast production and refinery network upset the delicately balanced U.S. refined product supply system.

The tight margins between refining capacity and demand enables price spikes to move quickly through the system directly into consumers' pocketbooks.

As with crude oil, we have turned to foreign sources of refined products, such as gasoline blendstock and diesel fuel, to satisfy our growing appetite. The country is as dependent on imported products as it was in the late 1970s. Foreign-produced refined product will continue to be a significant component of U.S. short-term supply, and remain so as long as the economics of imports versus domestic refining favor off-shore operations.

Once relatively insulated from global pressures, the U.S. refining sector is now inextricably intertwined with worldwide supply and demand of refined products—not just crude oil. This hearing will examine the current state of the U.S. petroleum refining industry, the rationale for past and anticipated investment in new or expanded refining capacity, and the economic risks posed by the posture of the industry in a rapidly changing global market.

We look forward to hearing from our distinguished panel.